File: Basic NF

PHILIP MORRIS USA

INTER-OFFICE CORRESPONDENCE

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TO:

Mike Mahan /Bob Mikulav

DATE: September 2, 1993

FROM:

Tom Garquilo/Sonva Rush/Giuseppe D'Alessandro

SUBJECT:

Basic Non-Filter Direct Mailing to Pall Mall Smokers

Per your request, we've investigated various direct mail programs using Basic Non-Filter to target Pall Mall smokers.

In summary, we recommend a live product mailing of 5 packs in a carrier similar to the attached. Basic Non-Filter has weak distribution (34%) and any other trial vehicle (i.e. coupon for free product) is likely to frustrate a high percentage of the recipients.

We would also include:

a letter on Basic stationary (copy forthcoming) which would speak to our product attributes in a manner consistent with our brand character

a coupon toward their first purchase (\$2 off a carton)

a "Please order Basic Non-Filter" card to leave with their favorite cigarette retailer if the retailer does not carry the packing

The cost of executing this program would be approximately \$1.8 million assuming we mail to all of the 333,000 Pall Mall smokers on the database that are classified as "Non-Filter" or "Unknown". In addition, there are about 100,000 Filter Pall Mall smokers on the database to whom we could send the same kind of mailing, substituting Basic Full Flavor for the Non-Filter packs.

I'm still confirming timing, but my best guess is that such a mailing could be in Pall Mall smokers hands' in mid October.

Background .

Although non-filter smokers have historically been extremely loyal to their brand, there is some evidence that would suggest that a marketing program targeted to Pall Mail Non-Filter smokers could meet with some success.

Pall Mail Non-Filter SOM has declined from 1.47% in December 1989 to 0.81% in June of this year (Nielsen 3MM). This decline mirrors the growth of the deep discount non-filter category (See Chart 1). As more deep discount packings have become available in greater distribution, non-filter smokers by definition have a greater opportunity to try and/or switch to them. National Smoker Tracking, for example, shows that 7% of the Pall Mall Non-Filter franchise outswitched in 1992, which is comparable to the outswitching rate for the industry, 50% of these outswitchers went to a deep discount brand. Similarly, alternate purchasing data for 1992 shows that about 10% of Pall Mall Non-Filter franchise volume goes to other brands, with more than half of this volume going to deep discount brands.

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Database Name Counts

According to National Tracking, Pall Mall Non-Filter has about a 1.5% share of smokers. With 333,000 Pall Mall Non-Filter names on the database, it appears as though we can target over half of the franchise.

Program Cost

We estimate a per unit cost of about \$5.50 based on the following:

Product related costs for 5 packs	\$3.50
Packaging (outer box/letter/printing/etc.)\$1.00
Coupon redemption (\$2 X 20%)	\$0.40
Mailing	\$0.60
Total	\$5.50

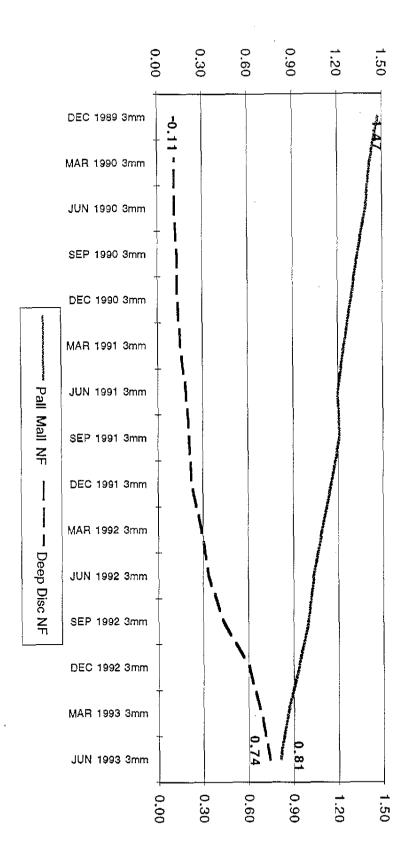
A mailing to 333,000 Pall Mall smokers would cost \$1,831,500, excluding agency creative costs. Total volume associated with this program is 46.6 million units, making the cost per thousand for this program about \$39.

Recommendation

Although we understand the strategic importance of this mailing and are prepared to execute the attached concept, there are a couple of issues worth mentioning:

- Investing almost \$2 million behind our non-filter packing doesn't seem nearly as attractive as investing that same money behind our menthol packings. Basic menthol has far greater upside potential over the long term and B&W is certainly as worthy a competitor to try to take business from as American. If it's a question of doing one or the other, we'd rather support menthol. If funding is available to do both, then we'd rather do both.
- A one shot mailing, although effective at eliciting trial, does not fully leverage direct mail as a marketing tool nor is it likely to "shake up" the Pall Mall Non-Filter franchise. We have engaged in many activities to elicit trial (FSI, B2G1F, B1G1F), and the nonfilter packing presumably benefited from this. If we are to begin using direct mail for Basic, we'd like to flush out a comprehensive program for the entire brand, not just a one shot mailing for the non-filter packing.

pall time Chart 1



Source: https://www.industrydocuments.ucsf.edu/docs/qtxn0004